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Uncertainty - Turkey and the Varieties of Capitalism

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Abstract:
Despite being included in the original statement by Hall and Soskice the case of Turkey in the framework of Varieties of Capitalism approach has been left hanging in an ambiguous position. This ambiguous position has not changed despite several reinterpretations and modifications of the original Varieties of Capitalism statement. A closer look at the case shows that in the current era Turkey is neither a liberal (too much state), nor coordinated (not enough inter-firm coordination), nor state-led (does not aim to be), nor dependent (too strong domestic bourgeoisie) market economy. Part of the Varieties of Capitalism approach is based on the notion that it understands institutions in terms of the functions they perform and sees institutions as entities that create, and increase certainty. According to the Varieties of Capitalism literature the state is providing a stable institutional context and is thereby reducing uncertainty for firms. However, in the case of Turkey a difficulty in situating it in the Varieties of Capitalism framework is the peculiar institutional context. In Turkey firms face the problem of erratic state behaviour in a stable institutional context. The state may enact, for instance, retroactive legislation as it did in the banking sector. It might also create highly particularistic rules that favour or weaken even a single firm as it did in the automotive sector. Hence the institutional context in Turkey is marked by uncertainty. To the degree that the state acts in such a manner the Varieties of Capitalism approach has difficulties in explaining such a case. In order to make sense of cases such as Turkey, the conceptualization of institutions in the Varieties of Capitalism approach, which is grounded in rational choice institutionalism and thus sees institutions as beneficial, has to be modified.

I. Introduction

The Varieties of Capitalism (VoC) approach has been the leading school of comparative capitalism research in the 2000s. Based on the original work by Hall and Soskice many scholars critically dealt with the approach, tried to adjust its formulations or attempted to broaden its scope. Initially restricted to members of the Organisation for Economic Co-operation and Development (OECD), scholars have tried to apply the approach to nearly all important economic areas in the world. It seems that only the regions of Africa and the Middle East were able to escape the reach of the VOC school.

However, some countries remain yet to be analysed with the tools of this approach. Among them is interestingly Turkey, which was included in Hall and Soskice's work but got away with the brief assessment of being in an 'ambiguous position'.[3] Arguably, a decade later Turkey is still in that 'ambiguous position', waiting to be analysed with the methods of VOC.

This is the first point that this paper attempts to tackle and as will be seen it is not just a scholastic exercise to fill a geographical void. We believe that a case study of Turkey in the framework of VOC is crucial for two reasons. Firstly, Turkey is often studied without a strict comparative vision. This leads to rich analyses which are difficult to put into the context of what is done elsewhere. Secondly, when Turkey's political economy is studied, it is usually studied in the framework of developing economics. Yet, today Turkey is an "upper middle income country" and even though it retains some developmental aspects the structure of its economy and its position in the world economy make it necessary to try to understand it with the methods applied to advanced industrialised countries.[4] Thus, we can learn a lot about Turkey's political economy, if it is studied it in the framework of VOC.

At the same time, we do believe that a case study of Turkey is also useful for the VOC approach. Being a firm-based approach it has sometimes being criticised for leaving the state out of the analysis.[5] As Turkey's economy has been defined by state action ever since

3 Hall, P.A. and Soskice, D. (2001): 21.
4 Bölükbaşı, T. H. (2011): 2.
5 Schmidt, V. (2003).

the foundation of the country in 1923[6], this case study constitutes a critical test for VOC. If we can analyse Turkey properly with this framework the criticism of neglecting the state levelled against VOC would lose much of its power. If the analysis fails, however, a need for either adjusting VOC to the realities of state-action or a restriction of the framework to countries without much state-intervention into economy would arise.

In the following, we will first provide an overview of the VOC framework. Then, we will try to understand in how far Turkey fits the models provided by VOC. Concluding that these models cannot sufficiently well explain the case, we will elaborate in the last part on one of the reasons for this failure to grasp the realities of Turkey's economy through the VOC framework: Erratic state behaviour. We argue that this type of state action, which our research showed to be present in Turkey, is fundamentally different from how VOC understands state action. Instead of decreasing uncertainty, erratic state behaviour increases uncertainty, while remaining within the context of a stable institutionalised setting. Hence, we conclude that if it wants to explain the type of capitalism Turkey exemplifies, VOC has to incorporate this kind of state action.

II. Literature review: VOC

In the original formulation by Hall and Soskice the VOC approach includes two varieties: Coordinated Market Economies (CME) and Liberal Market Economies (LME).[7] The basic difference between the two being the fact that in LME's the market serves as a way to overcome certain coordination problems of firms and in CME's firms cooperate to overcome them. Hall and Soskice classify 22 OECD countries with this framework and conclude that while most can be clustered according to the schema some – including Turkey – are in “ambiguous positions” in-between the two models. They speculate that these countries might constitute a third, Mediterranean type of capitalism, “marked by a large

6 Boratav, K. (2008).
7 Hall, P.A. and Soskice, D. (2001).

agrarian sector and recent histories of extensive state-intervention that have left them with specific kinds of capacities for non-market coordination in the sphere of corporate finance but more liberal arrangements in the sphere of labor relations."[8]

Since the publication of their work there have been many attempts to elaborate on this idea and to come up with novel types of capitalism. This proliferation of VOC is welcome but can lead to a confusion if the criteria for establishing a variety of capitalism are not clear. Nölke and Vliegenthart provide a concise framework to overcome this problem:

> "In order to qualify as a distinct variety of capitalism, three conditions have to be met: (1) the existence of an alternative overall economic coordination mechanism closely related to (2) a relatively stable set of institutions based on marked institutional complementarities, that leads to (3) a set of specific comparative advantages (in relationship to CME and LME) and a superior economic performance over comparable, but less pure, socio-economic systems."[9]

In the following, we use these three criteria as our yardstick in deciding on which proposed VOC to include in our analysis and come up with the following solution: We analyse Turkey in terms of the liberal market economy, coordinated market economy, dependent market economy (DME) and state-led market economy types (SME), but exclude the mixed-market economy (MME) and hierarchical market economy (HME) models from our analysis. Let us explain how we arrive at this.

As said above, Hall and Soskice speculated about a Mediterranean type of capitalism and some authors tried to develop this idea. Most notably, Molina and Rhodes scrutinise the reform process in Spain and Italy through this perspective.[10] These mixed-market economies are said to have features of LMEs and CMEs and generally be more influenced by regulation and state mediation. Yet, it remains unclear which alternative coordination mechanism is at

8 Ibid: 21.
9 Nölke, A. and Vliegenthart, A. (2009): 676.
10 Molina, O. and Rhodes, M. (2007).

work in this model and how this leads to positive complementarities which would form the basis of a superior economic performance.[11]

A similar criticism is also applied to the idea that state-led market economies constitute a VOC. Nölke and Vliegenthart, for instance, do not think that there is a distinct "type of coordination mechanism" in countries such as France.[12] At this point we disagree and side with the analysis of Schmidt, who argues that, for instance in France, the role of the government has been traditionally interventionist, mediating and leading inter-firm relations, as well as providing the source of investment for firms.[13] Possibilities for positive complementarities in SMEs are plenty. To give just one example, unemployment could be minimised through coordinating financing decisions with the provision of training and education. Hence, in our view the state can constitute a third kind of economic coordination mechanism and in fact does so in some countries. At the same time it is important to be aware that not every strong state leads to a state-led market economy. As Molina and Rhodes point out: "A strong state role does not in itself create a different 'type' of capitalism. What matters is the kind of coordination it imparts alongside regulation by markets and social actors."[14]

Recently, some authors proposed a fourth kind of economic coordination mechanism: hierarchy. Both, Nölke and Vliegenthart in their analysis of East Central European countries and Schneider in his analysis of Latin American countries, find that hierarchical relations play a crucial role in these economies. The former argue that in countries, such as Slovakia, which receive huge amounts of foreign direct investment of multinational corporations and in which these corporations control large shares of the domestic market, "hierarchy within transnational corporations [constitute] the central coordination mechanism."[15] These countries are dependent on foreign investments and the main decisions are taken by the

[11] Ibid: 227f elaborates on negative complementarities, which they call 'non-complementarities', but a similar section on positive complementarities is absent.
[12] Nölke, A. and Vliegenthart, A. (2009): 674f.
[13] Schmidt, V. (2003).
[14] Molina, O. and Rhodes, M. (2007): 227.
[15] Nölke, A. and Vliegenthart, A. (2009): 677.

headquarters of the transnational corporations (TNCs), not in the countries themselves. That is why they are called dependent market economies. Innovation processes, for instance, are not home-grown, but consist of technology transfer, which occurs when TNCs decide to implement technologies in their subsidiaries.

Schneider does not elaborate on innovation processes, even though he identifies TNCs as an important actor in Latin American countries. In his view, a second aspect which makes hierarchy play a crucial role is the presence of diversified business groups, which are important economic actors in Latin America. These groups often maintain “direct hierarchical control over dozens of separate firms.”[16] Moreover, they are usually family-owned, which constitutes another layer of hierarchical relations. Thus, Schneider classifies these countries as hierarchical market economies.

It is obvious that these two models are quite close to each other. In fact, HME can be seen as an extension of DME in that it incorporates two further dimensions of hierarchy, which the DME model lacks. However, the crucial problem of the HME model is that it more or less lacks positive institutional complementarities which could account for a superior economic performance. That is why we decide to incorporate the coordination mechanism of hierarchy in the form of DME, not HME. However, as Schneider's identification of diversified family-owned business-groups are relevant for the Turkish case, we will keep this aspect in mind in our analysis.

To summarise, we see four VOC as valid models. These are CME and LME as formulated by Hall and Soskice, SME as it is described by Schmidt and DME as developed by Nölke and Vliegenthart. In the following part we will look at Turkey through the lenses of this extended VOC approach and try to understand in how far Turkey can be identified as a CME, LME, SME or DME.

As pointed out in the introduction VOC has been highly popular. That might be the reason why it has drawn much criticism. An important point for our argument is the

[16] Schneider, B.R. (2009): 7.

conceptualization of institutions. VOC can be broadly defined as being part of the new institutionalist literature. Within this perspective it is argued to combine strands of historical and rational choice institutionalism. Yet, some scholars believe it to be too much tilted towards the latter version of new institutionalism. Thus, they criticise VOC for being too static and unable to account for change. If anything, only external shocks can help to change the political economy of a country because the (rational) actors – firms – simply adjust to an institutionalised structure which is locked-in due to institutionalised complementarities.[17]

III. Turkey as a Variety of Capitalism

Traditionally, Turkey has been studied more as a case of a developing economy than as an advanced industrialised country. Moreover, in terms of the development literature it has usually been classified as a developmental state, of one sort of another.[18] Thus, the emphasis has mostly been on the role of the state in the economy. That is why it seems natural to begin asking whether Turkey can be understood as a Schmidt'ian state-led market economy.

A. Turkey and the State

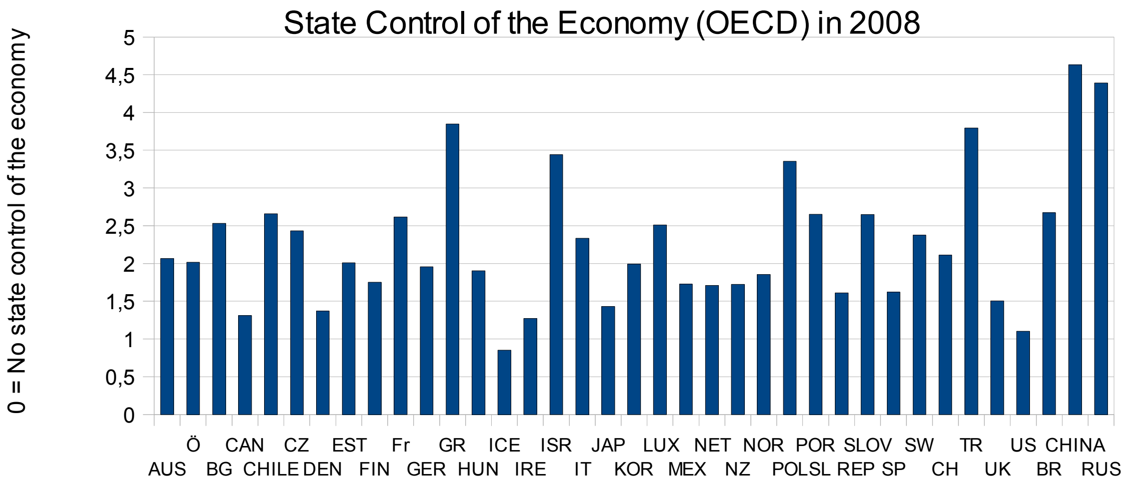
It is debatable whether quantitative indicators comparing state intervention in the economy are the final word in classifying economies as SMEs, but they offer a first guideline on which to base our discussion. The following diagram provide in overview of the state control of the economy in 2008 in various countries.[19]

[17] Schmidt (2003): 110ff.

[18] Bölükbaşı (2011): 2f.

[19] The data is taken from the OECD database. The composition of the indicator is explained in the document 'Schemata for the 'Integrated PMR Indicator' 2008".

The indicator constitutes one third of the product market regulation indicator. State control is probably strongly correlated with the level of SME-ness of a country. Yet, it should be pointed out that a high score on the indicator is neither a necessary nor sufficient condition for being an SME. For example, it is possible to conceive of a country, which fits the SME-model, but in which the only form of state intervention measured with this indicator is a highly regulated banking sector. This country would thus have a low score on state control as measured by the OECD. Moreover, a high score does not necessarily mean that a country is a state-led market economy. Indeed, too high a score would necessarily run against the market-part in state-led market economy.



It is clear that in Turkey the state has a comparatively strong control of the economy. The country is practically on par with Greece and surpassed only by China and Russia, both countries for which one could make a case that they are state-led economies. Looking at this indicator in detail we see that it is made up of two parts: the extent of public ownership and the involvement of the state in business operations through instruments such as price controls.

Especially the former has been decreasing in Turkey due to the privatisation of numerous state-owned enterprises. The privatisation programme started in the mid 1980s – earlier than in many other cases – but its progress has been comparatively slow.[20] In fact, the programme is still unfinished: The Privatization Administration continues to have a stake in quite a few companies, among them *Türk Hava Yolları* (Turkish Airlines, THY), indicating that these stakes are planned to be (at least partly) sold. Moreover, some companies, such as *Türkiye Kömür Isletmeleri* (Turkish Coal Enterprise, TKI), remain regular state-owned enterprises. Apart from companies tied to the central government, around 100 smaller companies are linked to metropolitan municipalities, especially in Ankara and Istanbul.[21] Their importance for the overall economy is difficult to assess, but in the respective localities

[20] Ökten, Ç. (2006): 227.
[21] Hazine Müstersarligi (2009) '07.12.2009 tarih ve 51864 sayılı Kamu İşletmelerinin İzlenmesi Genelgesi'.

they do play a crucial role in the state-economy nexus.[22]

Another sector, in which state-intervention remains strong is housing. Arguably, this is important as construction and real estate play an increasing role in Turkey's economy.[23] While the housing sector has been by and large commodified over the course of the last decades, the most important player today is a state agency. The *Toplu Konut Idaresi* (Housing Development Administration of Turkey, TOKI) used its monopoly on state-owned land to become one of the key housing companies and today has a guiding role in the market thanks to its size. Finally, the reluctance for further privatisation has been most visible in the banking sector, where crucial actors, such as *Ziraat* and *Halk Bankasi* remain state-owned. This means that nearly one third of the banking sector are made up of state-owned banks.[24]

To summarise, public ownership has been scaled down, but remains significant. In 2008 it was still comparatively high, yet below countries such as Sweden or Poland – surely no model SMEs. The second aspect of state control, price and command and control regulation, has been more resistant to calls of liberalisation. A visible sign of this is that roughly one third of the income in agriculture comes from producer support by the state.[25] Considering that the primary sector still employs around one fourth of the countries workforce, this constitutes a significant state intervention into the economy.

So, we do have various state-owned enterprises, important state-owned banks and command and control regulation, but does this add up to a case for Turkey being an SME? We argue that although the state might have retained some potential for being a state-led market economy, it is not adequately described as an SME. Going back to Schmidt's elaboration of the concept, we see that an SME is not just about the level of regulation or

22 Buğra and Savaşkan (2010): 99f. Four of these enterprises are among the biggest 1000 industrial enterprises in Turkey, according to the Istanbul Chamber of Industry. Istanbul Sanayi Odasi (2009).

23 According to data from the Turkish Statistical Institute (Türkiye Istatistik Kurumu, www.tuik.gov.tr) the sub-sectors of construction, ownership and dwelling and real estate, renting an business activities made up 14% of the Gross domestic product (GDP) in 2011. For a critical analysis of the role of construction and real estate in Turkey's political economy see the 270th issue of *Birikim*.

24 Bankacılık Düzenleme ve Denetleme Kurumu (2010): 37 provides a somewhat lower figure (asset-based) for 2010. Earlier calculations (Tükel, A., Üçer, M. and van Rijckeghem, C. (2006): 284) suggest a hıgher share.

25 OECD (2011) 'Turkey: Farm reforms should accelerate to improve competitiveness, OECD says', OECD Press release 29.04.2011.

public ownership, but about the state playing an active, guiding role in the economy. In Schmidt's narrative of France, the state is crucial for capital-labour relations, both in the public and private sector: “The state mediated inter-firm relations, set medium-term corporate strategies through planning and industrial policy and underwrote the investment of traditionally undercapitalized business.”[26] With the possible exception of the housing market, it is difficult to claim that we see the state playing a similar role in Turkey. Take the example of investment decisions. Conscious, political interventions of state banks do happen, but as in the case of the much publicised sale of the ATV-Sabah Media Group this is apparently more linked to patronage than to guiding the economy.[27]

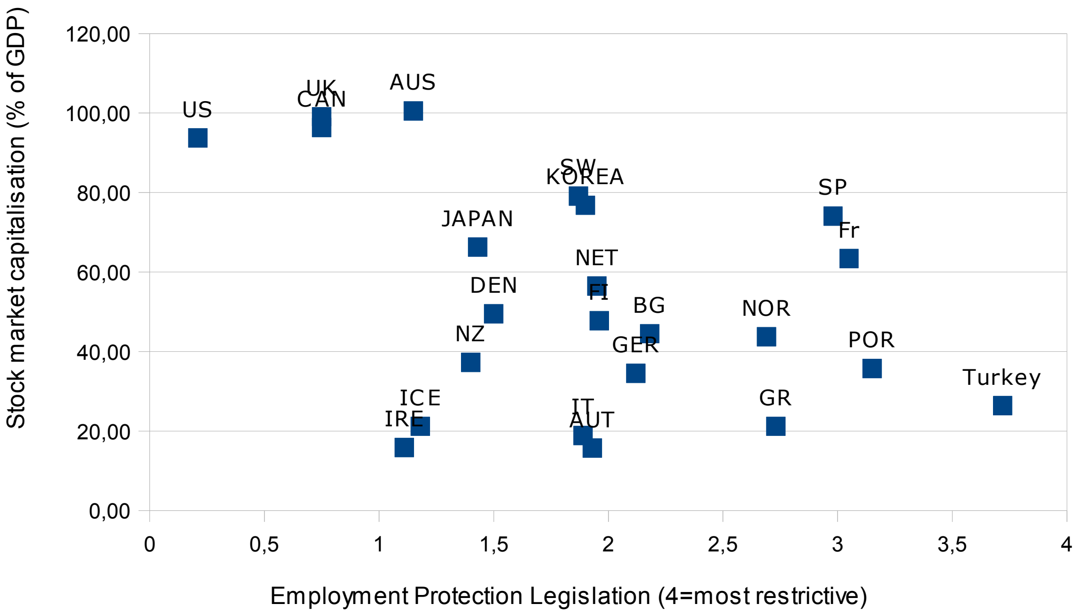
This is essentially the reason why, even though it retains some qualities of the model, Turkey's political economy can only be to a limited extent grasped through the lenses of the SME model. In general terms the state is simply not aiming at a comprehensive economic policy which, for instance, would guide the private sector into certain areas, while barring it from pursuing other paths. Such a policy does not appear to be an aim of the current administration in Turkey. Thus, we conclude that over the course of the last thirty years Turkey has ceased being primarily a state-led economy, but the question remains what it has become instead.

B. Turkey and the Market

Returning to the original formulation of VoC by Hall and Soskice, let us try to position Turkey on the LME/CME-dichotomy. Again, quantitative indicators on the different institutional practices may not be the ultimate solution in understanding political economies, but the measures used by Hall and Soskice have an intuitive appeal. One original idea of Hall and Soskice was to locate countries “on two axes that provide indicators for the character of institutions in the spheres of corporate finance and labor markets“.[28] Replicating this measurement for the latest available data leads to the following figure:[29]

26 Schmidt, V. (2003): 529f.
27 Buğra and Savaşkan (2010): 101.
28 Hall, P.A. and Soskice, D. (2001): 18f.
29 Data on employment protection is taken from the OECD database (www.oecd.org). Specifically, we use the

Figure 1: Institutions across sub-spheres of the economy



The clustering might not be as clear as in Hall and Soskice, but a difference between LMEs, such as the United Kingdom, and CMEs, such as Germany, remains. Turkey is found at the extreme end of the CME cluster due to its strict employment protection legislation and low stock market capitalisation, which indicates that the primary source of finance for firms is not the stock market. Yet, this picture of Turkey as an antithesis of LMEs is misleading.

Firstly, in the case of employment protection we have to differentiate between protection as defined by the laws and de facto protection. In Turkey, formal employees might be protected on paper, but cases where illegal firing of workers goes unpunished abound.[30] Employees in the informal economy obviously have even less protection. Considering that the informal sector accounts for more than 40% of the employment de facto employment protection is far lower than the indicators reveal.[31]

overall strictness of employment protection in 2008 (Version 1). Detailled information can be found here: http://www.oecd.org/dataoecd/24/40/42740190.pdf
Stock market capitalisation is the market value of listed domestic companies as a percentage of GDP; it is retrieved from the World Bank database (http://www.worldbank.org). We take the average for the years 2008 and 2009 to compensate for fluctuations caused by the global financial crisis.

30 For an exemplary case see BirGün, 2.7.2010 “TI Otomotiv'de dokuz işçi işten atıldı”.

31 Radikal, 3.7.2010 “Türkiye'de her 10 kişiden dördü kayıt dışı, doğuda tablo daha da kötü”.

Yet, in identifying CMEs it is most important to understand whether firms build relationships with other actors based on cooperation. As Hall and Soskice write:

> “These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build competencies of the firm.“[32]

Such a cooperation among firms as in CMEs is not present in Turkey to any significant extent. Cooperation exists, but is based on hierarchies within diversified business groups, as will be explained in the next section. So, if there is no inter-company coordination as in CMEs, can we at least argue that inter-company relations are based on competition in the market as in LMEs?

On the one hand this competition does exist in Turkey, but on the other hand it is insufficient to restrict competition between firms to competition in the market, as in LMEs. Traditionally, and this continues to a certain extent today, there is also a competition for favours of the state. One prominent mechanism for this are public procurements. It is probably no coincidence that the Law on Public Procurements has been changed a staggering 25 times since it has come into effect a decade ago.[33] The presence of this competition for state favours obviously weakens the importance of regular market competition.

Regarding other dimensions in which, according to Hall and Soskice firms have to overcome coordination problems, we can start with labour-relations.[34] As Hall and Soskice pointed out LMEs have deregulated labour markets, marked by a low-cost of hiring and firing and no co-determination. Above, we claimed that in Turkey the labour market is de-facto more deregulated than it is on paper. Those parts of the economy not acting in line with the regulations may resemble LMEs. In practice, not complying with the legislation means

[32] Hall and Soskice (2001): 8.
[33] Kamu Ihale Kanunu, Kanun no.4734.
[34] Hall and Soskice (2001): 7. For sake of brevity, we analyse industrial relations and employees under the heading of labour relations and exclude vocational training and education.

that costs of hiring are negligible: employers pay new workers their first wages late, employ them first on an informal level or pay them lower wages than is declared. Similarly, firing is no problem for the employer as he might simply decide not give the employee his severance pay.

At the same time, part of the workforce is employed in a manner complying with the protective legislation. In these cases – probably comprising of parts of the more educated workforce as well as civil servants – the situation would not resemble a liberal market economy. Hence, we have a segmented labour market: The majority works under conditions resembling LMEs, whereas the rest is protected as in CMEs.[35]

Finally, low rate of unionisation is a feature of the private economy (unionisation of public employees is relatively high, but union activity is highly restricted for public employees). Although the real number of trade union members is almost impossible to find out (in part due to intentionally faulty official statistics to allow unions to take part in bargaining), the rate provided by the OECD – 5,9% in 2009 – is a useful starting point.[36] If this number comes near to the truth Turkey has the lowest union density among all OECD countries and thus we can speak of 'atomistic labour relations', to borrow Schneider's description of Latin America.[37] Together with the low employment protection for the majority of employees, this extremely low level of unionisation shows that Turkey resembles LMEs more than CMEs in this sphere.

An opposite picture emerges in the realms of corporate governance and inter-company relations. We touched upon the former in the figure above which suggests that the stock market in Turkey does not play the same role as in LMEs.[38] Rather than stock markets, which would imply “finance available on publicly assessable information”[39] as in LMEs,

[35] Adaman, F., Buğra, A. and Insel, A. (2009) similarly argue that the labour market in Turkey is segmented, but according to them the split is three-fold, between informal, formal but not unionised, and unionised workers.

[36] Adaman, F., Buğra, A. and Insel, A. (2009) discusses the problem of reliability of official statistics in this respect. In order for a union to take part in collective bargaining it has to represent at least 50%+1 employee at the workplace level and represent at least 10% of the people employed in the sector.

[37] Schneider, B.R.(2009).

[38] According to World Bank data cited above the market capitalisation swings between 10-45% of the GDP.

[39] Hall and Soskice (2001): 32.

state-owned and private banks are the primary source of finance. In the case of state banks we repeat our assessment above that lending is traditionally as much a matter of patronage as it is a matter of coherent economic policy. Private banks, on the other hand, are often linked to business groups. Hence, banks provide credits to within-group firms on the basis of insider knowledge. By most accounts, the restructuring of the banking system after the 2002 crisis has made the sector more sound. The "high degree of politicization of bank lending and regulation"[40] seen in the 1990s has by and large ceased and the entry of foreign companies should ceteris paribus have led to more open lending practices within business groups. So, corporate finance has taken a step towards the LME model, but has not yet arrived there.

To summarise this section, we do not see grounds for classifying Turkey as a coordinated market economy, even though it ranks similar to CMEs on some relevant indicators. The reason is that inter-company coordination does not exist as an alternative economic coordination mechanism on a meaningful level. However, Turkey does share some features of liberal market economies. Firstly, those parts of the labour market which do not follow the employment legislation are working similar to those in LMEs. Secondly, in terms of inter-company relations there is no coordination, but competition. Yet, this is insufficient to make it a proper LME due to particularities in corporate finance and non-market based state-firm relations.

Is Turkey at least on the path of being a model LME case? In this respect, one should not be too confident. A crucial aspects of the current era is that the state continues to be present in the economy even though there is a strong single-party centre-right government committed to privatisation. This government has for the most time not faced a serious (centre-)left opposition or adversarial unions with substantial strength.[41] Thus, becoming an LME should be difficult once this constellation changes.[42] So, if neither LME, CME nor

40 Öniş, Z. and Bakir, C. (2010): 82.

41 In fact, a strong trade union confederation is today Hak-İş, which according to some serves as a branch of the governing party. Cf. Milliyet, 26.12.2008 'AKP iktidarı Hak-İş ve Memur-Sen'e yaradı.'

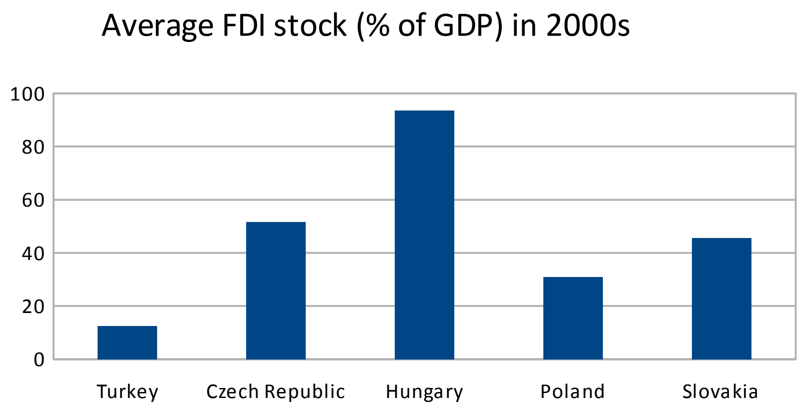
42 One could venture the claim that this constellation is in process of changing, as the main opposition seems to become a social-democratic party (again).

SME can properly account for the case of Turkey, how about reading it through the lenses of hierarchy as its main coordination mechanism?

C. Turkey and the Hierarchy

The main feature of dependent market economies is the dominating presence of transnational corporations. Instead of a domestic bourgeoisie, TNCs play a leading role in the economic system in DMEs. Thus, innovation is transferred via corporate decisions of TNCs and capital is mainly provided through foreign direct investment. The main coordination mechanism in these economies is not the market but the hierarchical system within the TNCs. Important decisions are taken by corporate headquarters outside the country and are only implemented in the DMEs by the respective subsidiary.

In the popular discourse Turkey is sometimes described as being an economically dependent country. Globalisation in general and the increasing presence of foreign companies in particular have only strengthened these views. Yet, we argue that Turkey is different from the East European DMEs that Nölke and Vliegenthart describe. First of all, foreign direct investment (FDI) is not the main source of finance, as is it is in countries such as the Czech Republic. The figure below showing the inward FDI stock as a percentage of the gross domestic product (GDP) in 2009 illustrates this.[43]



FDI has only become a significant source of finance from 2005 onwards. Moreover,

[43] The situation does not change much if we use single data points instead of averages or inward/outward ratios instead of inward stocks. The data for FDI is taken from the United Nations Conference on Trade and Development (UNCTAD) (http://www.unctad.org/).

even at its peak in 2006, the size of FDI relative to the size of Turkey's GDP was below four percent and thus comparatively low. Yet, this does not mean that foreign investment in Turkey does not exist or that TNCs are not active in Turkey. Rather, TNCs coexist with domestic business, which continues to play a leading role, mostly in the form of diversified business groups (called *holding* in Turkey), which are traditionally family based.[44] Let us illustrate the situation through the example of the banking sector.

In DMEs the share of foreign ownership in the banking sector is overwhelming, according to Nölke and Vliegenthart.[45] Looking at Turkey's seven biggest banks, which own nearly three-fourth of the total assets in the sector, we see that three are state-owned (28%), one has domestic owners (13,3%) and three are controlled by diversified business groups, two of them in cooperation with foreign partners (31,9%).

Table 1: Turkey's biggest banks[46]	Share of total assets (December 2011)	Main owners
Türkiye İş Bankası	13,30%	Pension fund of the bank and *Cumhuriyet Halk Partisi*
Ziraat Bankası	13,20%	State
Garanti Bankası	12,00%	Doğuş Group and Banco Bilbao Vizcaya Argentaria
Akbank	11,00%	Sabancı Holding and Citibank
Yapı ve Kredı Bankası	8,90%	Koç Group
Halk Bankası	7,5%	State
Vakıflar Bankası	7,3%	State

Taking a closer look at the domestic owners in three banks with business group-foreign company cooperation, we see that this situation is not restricted to the banking sector. Koç Group, for instance, has a joint venture with LG Electronics through its company Arçelik and with Ford Motor Company through Ford Otosan, to name just two very

44 Buğra (1995) provides an overview of the development of diversified business groups in Turkey.

45 Nölke and Vliegenthart (2009): 683.

46 Data is taken from the Banking Regulation and Supervision Agency. Bankacılık Düzenleme ve Denetleme Kurumu (BDDK) (2011). Information on ownership structure is taken from the same report in the case of state-owned banks and the respective websites of the banks or the private banks. The seven banks are chosen due to their high market share (above five percent of total assets) in the post 2002 era. Mid-sized banks (asset share between one and five percent of total assets) are mainly foreign-owned (i.e. Denizbank or Finansbank). According to the BDDK, foreign ownership in the banking sector is 41,1%.

prominent ones. Sabancı Group has joint ventures with Heidelberg Cement in the cement industry and with Bridgestone for tires, amongst others. These joint ventures are all among the most important industrial corporations in Turkey.[47] Doğuş Group focusses more on project-based joint ventures in construction and works with foreign manufacturers in the automotive sector.

These examples show that Turkey is not devoid of a domestic bourgeoisie, as it is the case in DMEs. Rather the situation resembles Schneider's narrative of Latin American hierarchical market economies: The dominant form of private firms are diversified business groups. Most of the remaining parts are controlled by TNCs. Often, TNCs and business groups create joint ventures for particular businesses.[48]

In this respect, the different instances of hierarchy as an economic mode of coordination described by Schneider do exist in Turkey as well. Subsidiaries of holdings, TNCs or joint ventures are usually hierarchically controlled. Business groups are usually family-owned thus strengthening hierarchy on the managerial level. The size of business groups and TNCs means that they are able to use market share as an instrument of coercion in inter-company relations.[49] To summarise, Turkey's economy is only to a very limited extent a DME, even though hierarchy does play a prominent role.

D. Coordinates of Turkey among the Varieties

As the previous sections have shown, Turkey does not neatly fit into any of the four VOC. Regarding the first model, the state led model, Turkey is only compatible with it to a certain extend. Most importantly, the state in Turkey does not aim at a comprehensive economic policy that would bar the private sector from investing in some sectors and at the same time guide them into other investment areas. Secondly, despite the above missing element Turkey did have some SME-characteristics, which were lost in the reform process.

In the case of CME, Turkey lacks the crucial property, namely inter-company

[47] Istanbul Sanayi Odasi (2009).
[48] Schneider, B.R. (2009): 4.
[49] Ibid: 8f.

coordination. Instead, Turkey shares some features with liberal market economies. Two of these features are (parts of) the structure of the labour market and the fact that inter-company relations are based on competition. However due to differences in corporate finance sector and non-market based state-firm relations Turkey is far from becoming an LME. Finally, in the case of DME, Turkey fits the model only to a certain extent. Most importantly, Turkey has a significant local bourgeoisie, something which does not exist in the case of DMEs.

Since Turkey does not fit to any of the models perfectly, one would naturally ask whether Turkey can be considered a distinct model. In order to answer this question we return to the concise framework of Nölke and Vliegenthart. As stated above, in order to be qualified as a distinct variety of capitalism, three conditions have to be met. First, there had to be an alternative overall economic coordination mechanism. Second, this alternative economic coordination mechanism had to be closely related to a relatively stable set of institutions based on marked institutional complementarities. Third, this institutional complementarity would lead to a set of specific comparative advantages compared to CME and LME. Furthermore this would also lead to superior economic performance over less pure socio-economic systems.

According to this framework the most important condition is the first one, namely the presence of an alternative economic coordination mechanism. The other set of conditions depend on the existence of the first one. The analysis in the context of four models have revealed that Turkey does not have a totally distinct economic coordination mechanism.

This leaves us with one last alternative, namely that Turkey would be a hybrid case. The data used in this research indicates that in the framework of VOC approach Turkey could considered as a hybrid case. The analysis has revealed some similarity of Turkey with SME, DME and LME. However, our research discovered another issue that makes it difficult to describe Turkey as a hybrid case. This is the issue of "*Erratic State Behaviour"*.

IV. Uncertain Behaviour Generating Long-term Certainty: Financial Regulation Institutions

Institutions in VOC

According to the framework established by Nölke and Vliegenthart one important variable in the conceptualization of VOC are institutions. In fact, in the original statement by Hall and Soskice, institutions are taken as a given. This can be seen from how Hall and Soskice are integrating it to their argument by using the idea of "Institutional Complementarity".[50]

They define Institutional Complementarity by using a three stage analysis. The first stage is based on the definition that was developed for the concept of "Complementary Goods". In order for two goods to be considered complementary the increase of price in one of them must decrease the demand of the other good. In the second stage they apply this to the operations of the firms. They argue that the customized products used together with flexible machine tools might increase the returns to the firm. In the third stage of their analysis they extend their argument to the Institutions in Political Economies. Following their line of thinking, the presence and efficiency of one institution will increase the efficiency of the other institution.[51]

The concept of Institutional Complementarity can be analysed by identifying an implicit argument in the statement of Hall and Soskice. It should be noted that one of the underlying premises of the concept of Institutional Complementarity is the idea that institutions raise the level of certainty in the context of political economies. In other words they decrease uncertainty by allowing the actors in a particular political economy to behave according to the expected behaviour or the efficiency of relevant institutions.

An Unnamed Phenomenon

As this section will demonstrate this perspective does not really explain the realities

[50] Hall and Soskice, 2001: 17.
[51] Hall and Soskice, 2001: 17-18.

in the case of Turkish political economy. In the case of Turkey, despite the presence of well established institutions, we find "erratic state behaviour" which does not decrease the level of uncertainty.

How does the political economy literature cope with the presence of such a concept? In the selected review of the literature on the VOC approach this research paper only came across one term that points to the same direction as "Erratic State Behaviour". This concept, developed by Vivian Schmidt is called "state-led by misdirection" or "state-led by indirection".[52] However, this conceptualization is not adequate for our purposes since the presence of the concept of "state-led by misdirection" does not increase the level of uncertainty.

In the analysis of the Turkish political economy the literature is in need for a new concept. This has led this research paper to develop the concept of "Erratic State Behaviour". For the purposes of the research paper, the concept of "Erratic State Behaviour" can be defined as: *"Despite the presence of an institutionalised setting, the unpredictable behaviour of the state in the economic sphere causes the increase of uncertainty in the economic sphere".*

When investigating the concept of “Erratic State Behaviour” three important criteria that should be kept in mind. First, the chosen sector must be a crucial sector in the context of the VOC for the market economy in question. Second, the sector needs to be highly regulated. Third, it need to be highly institutionalized. Fourth, it must be a high revenue and growth generating sector. The Turkish Banking sector fulfils all three of these criteria.

Turkey's Banking Sector

Embodiment of Institutionalisation

Currently there are four independent regulatory bodies that have jurisdiction over the banking sector. These are the *Bankacalık Düzenleme ve Denetleme Kurumu* (Banking

[52] Schmidt, 2002: 109; Schmidt, 2009: 521.

Regulation and Supervision Agency, BDDK); the *Türkiye Cumhuriyeti Merkez Bankası* (Central Bank, TCMB); *Tasarruf Mevduatı Sigorta Fonu* (Saving Deposits Insurance Funds, TMSF) and the *Sermaye Piyasası Kurulu* (Capital Markets Board of Turkey, SPK).

These agencies regulate the banking sector from different angles and to various degrees. The agency that has the least amount jurisdiction over the banking sector is the SPK, which regulates the banking sector through powers over publicly traded companies. In fact with the changes on the publicly traded companies governing act the SPK will have the power to appoint an independent member to the board of directors of banks that are publicly traded. The second independent body that has jurisdiction over the sector is the TMSF. The principle power of the TMSF lies in the fact that it is responsible for the adequate financial solvency of the banks in Turkey. In case of any doubts regarding the present and future liquidity of the banks the TMSF has the power to temporarily place the Bank under TMSF control. The most recent case of such an action was the case of the *Arap-Türk Bankası* (Arab-Turk Bank, ATB). The third independent body is the TCMB, whose main power lies in its jurisdiction over different types of interest rates and the reserve requirement ratio of the banks. The final independent body is the BDDK. It has jurisdiction over every aspect of the Banking.[53]

This highly institutionalized and highly regulated nature of Turkey has become more visible after the financial crisis of 2001.[54] Especially in the 1990s banking used to be highly politicised, but political interference has decreased in the last decade. This is not to say that it has disappeared completely[55], but the performance of the sector during the global economic crisis has shown that the system of regulation created in the aftermath of the 2001 crisis does work.[56]

[53] Zaman, 26.04.2012, "Merkez Başkanı Bşaçı Soruları Yanıtladı"; Zaman, 25.02.2012, "Bankalar Tam Yetkili Bağımsız Üyeye Karşı"; Zaman, 15.03.2012, "Arap Türk Bankasında Yönetim Tekrar Libya'ya Geçti".
[54] Bakir, C. and Öniş, Z. (2010).
[55] Karadag, R. (2010).
[56] Dünya, 03.09.2010. "Türk Bankalari Güclü Yapisini Koruyor."; Zaman, 26.11.2010, "BDDK Başkanı Bilgin: Biz Bankaları Sıkıyoruz".

Institutionalization, Clear Objectives, Erratic Behaviour

The goals and basic reasoning behind the actions of independent regulatory bodies and the political will is clear. Administrators of the independent regulatory bodies have made similar statements over the last ten years. The first goal is to ensure that the Turkish economy avoids crises, such as those in the 1990s that caused the near collapse of the banking system. The second goal is the controlling and if possible the elimination any kind of bubble that could break the economy. In Turkey's case the regulatory bodies have fixated on the issue of credit card spending. The third goal is the liquidity of the banks.[57]

Despite the highly institutionalized nature, high level of regulation and clear goals the banking system experiences what this paper refers to as erratic state behaviour. One example of this erratic state behaviour is connected to Article 160 of the "Turkish Banking Law". Article 160 is hanging over the heads of the banks administrators like the Sword of Damocles. It is stated in Article 160 that bank administrators are personally responsible for any non-performing loan. Furthermore, it opens the way for bank administrators to be tried for embezzlement of bank funds. Note, that the banker does not have to act in bad faith, but rather the loan simple has not be repaid. If found guilty the bankers face up to 12 years of prison sentence. As a profitable and growing banking system the Turkish banking system contains non-performing loans. Yet, so far only one Bank administrator, the ex-chief of Vakıfbank has been prosecuted due to Article 160.[58]

A second case is a recent letter sent to all Turkish banks in November 2011 warning them not to provide credit to European banks.[59] While this warning does not have the status of a legal regulation, the strict way regulation usually works makes this warning comparable to legal regulation. In this case the above mentioned Article 160 plays an important role in

[57] Zaman, 20.02.2012, "Bankalar Tek Limit Uygulaması İstemiyor ama Bence Hayırlı olur"; Zaman, 19.02.2012, "Bşlgin Kredi Kartları ile İlgili Tek Limit Uygulamasını Savundu"; Zaman, 11.02.2012, "Bankaların Elini Güçlendirecek iki Adım"; Zaman, 10.02.2012, "Babacan Türkiye'deki bankalar stres testine tabi tutuluyor"; Zaman, 30.03.2012, "BDDK'dan Tuketicilere Uyarı"; Zaman, 19.05.2012, "BDDK 10 Yıldır Hic Yanlış Karar Almadı"; Zaman, 26.11.2011, "Esnaf ve Hukumet Kredi Kartları icin Bankacılarlar bir aray geliyor"

[58] Vatan, 29.02.2012, "60 Milyon Dolarlık Şok".

[59] Haberinvakti, 25.11.2011. "BDDK'dan paraya yurt disi cikis yasagi."

the warning issued by the BDDK. If any loans to European banks would fail, the bankers could be charged by the BDDK in accordance with Article 160.[60]

In the third example, in 2010, the Ministry of Finance unexpectedly changed tax regulations by increasing the level of *Kaynak Kullanimi Destekleme Fonu* (Research Usage Support Fund, RUSF) tax. This change was applied retrospectively to all loans in the Banking sector. Thus, the calculations under which the banks decided to provide the loans were no longer applicable.[61]

A fourth example is an action taken by Turkey's central bank, an institution that is usually being lauded for its independence and competence. In 2011, a series of swift changes of the reserve requirements took bankers by surprise.[62] These actions were interesting for being both rather ad hoc in nature and consisting of significant policy reversals. Indeed, within a period of one year the central bank made twelve different changes in the reserve requirements, sometimes lowering and sometimes increasing them.[63] One of the clearest indications of the uncertainty these actions brought with them can be found in a statement of the vice president of the central bank who proclaimed that "in the future market actors will understand this strategy better", thereby admitting that market actors were not really able to understand the actions of the central bank by the time they were taken.[64] Indeed partly as a reaction to these changes analysts asked for more predictability in financial policy.[65]

These examples show that even in the highly regulated banking sector the state behaves in a manner that increases uncertainty. We believe that the existence of this kind of state action in the banking sector means that it is, if anything, even more widespread in other sectors of the economy. Thus, there is a need to conceptualise this type of state action.

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60 Finans Gündem, 01.03.2012. "Bilal Karaman'a sok."

61 Zaman, 28.11.2010, "Fon kesintisindeki artışın eski kredi ödemelerine yansıtılması yanlış"; Zaman, 13.10.2010, "Kredi taksitlerindeki KKDF kesintisi yargıya gidiyor"

62 Dünya, 19.04.2011. "Bankalarin Kar Kaybi 4 Milyar TL'yi Bulacak."

63 The decisions can be traced on the website of central bank.

64 Dünya, 07.10.2011. "Her an Tetikteyiz."

65 Radikal, 26.10.2011. "Bas Döndüren Deney", Radikal, 05.01.2012. "Ekonomistin Faiz Isyani." See also the articles "Para Politikasinda Yeni Arayislar" by Fatih Özatay in the issues of Radikal from 21.01.2012 onwards for a more general assessment of these policies reversals.

Erratic State Behaviour

In the discussion of the banking sector we have seen that state actions have been difficult to classify from a VOC perspective. Far from creating more certainty, as the rational choice institutionalist perspective of the VOC framework would expect, some actions of the state have been creating the opposite – uncertainty. If we want to generalise this phenomenon we could say that retroactive legislation, ad hoc policy making[66], frequent policy changes and particularistic rules[67] are actions through which the state is creating uncertainty among market actors. Indeed, that these actions are creating uncertainty can be seen in the reactions of market actors. Yet, the fact these decision create uncertainty does not mean that they are necessarily irrational, as we have seen in the example of the banking sector. We call this kind of state action 'erratic state behaviour'. This concept shares some characteristics of the argument that 'policy-induced uncertainty' is a dominant aspect of Turkey's political economy. Yet, it is not synonymous with it.

The phenomenon of policy-induced uncertainty is traced back to different historical periods by different authors. Buğra[68], for instance, shows that it existed even in the early Republic, while Batur discusses how the neoliberal turn from 1980 onwards ended up in ad hoc decision-making in the latter Özal period.[69] While these analyses might be accurate, it should be noted that the argument presented here differs from the idea of policy-induced uncertainty in that we find the phenomenon within an institutionalised context. Thus, erratic state behaviour is not as widespread as to disintegrate the institutional structure of Turkey's political economy, but remains a part of it. In Turkey, the state sets the rules of the game for the market to operate, bends these very rules from time to time, but takes care not to disrupt

66 While the discussion above contained no example of ad hoc policy making, one case from the automotive sector can be given. In 2011, the Special Consumption Tax for different products, among them cars, was radically increased from one day to the other, leading a sector representative to bemoan that “sudden and big changes […] make long-term decision-making more difficult.” Hürriyet, 13.10.2011. “Is Dünyasi Sokta: Büyük ve Ani Oldu.”

67 While the discussion above contained no example of particularistic rules, one case from the automotive sector can be given. In 2011, the cabinet singled out the Jetta model of Volkswagen and applied a special tax to it. Hurriyet, 13.05.2011, "Jetta’ya ‘Meksikalı vergisi’ geldi, Doğuş Oto şaşıp kaldi".

68 Buğra (1995).

69 Batur (1998).

the game as such.[70]

In this manner, this argument shares some of Yalman's critical attitude towards the policy-induced uncertainty view.[71] However, it could be that the differences between erratic state behaviour and policy-induced uncertainty simply stem from the different context we have studied. Following the 2001 crisis Turkey's political economy has been restructured and a regulatory state been constructed.[72] Hence, one could argue that what we see now is a restricted version of an earlier pattern. As state action now takes place within the bounds set by strong regulatory institutions the phenomenon and its effects are no longer as dominant as before.

The existence of erratic state behaviour is rather problematic from a VOC perspective. According to VOC a clear institutional setting shapes the behaviour of firms by creating a degree of certainty and predictability and thus moulds political economies into varieties of capitalism. In our case, the institutional setting is quite well developed, but it is not always predictable and creates uncertainty. Yet, it does shape the behaviour of firms. The problem that remains is to understand how the behaviour of firms in this setting becomes different from what the VOC perspective would assume and how we can understand these effects within the VOC perspective. It is likely that this task would probably have to entail redefining institutions as such.

V. Conclusion

This paper tried to situate Turkey within the context of the varieties of capitalism-approach. Taking four varieties as valid models – liberal, coordinated, state-led and dependent market economy – it has shown that Turkey does not fit properly into any of these models. It is statist to be liberal, but does not aim to be a proper state-led market economy. Inter-company relations are not based on coordination, hence it is not a coordinated market economy.

70 Another aspect in which our concept is different, is that we emphasise that the state actions are not necessarily political in the sense of being forms of crony capitalism.

71 Yalman (2009).

72 Bakir and Öniş (2010).

Finally, the domestic bourgeoisie is too strong for Turkey to be a dependent market economy. Trying to understand the reasons for the inability to fit Turkey into any of the models the study explored a particular type of state action that we believe to be prevalent in Turkey's political economy: erratic state behaviour. Taking the highly regulated and well institutionalised banking sector as a crucial case, we traced the actions of the regulating authorities in the sector and provided examples of actions which increased the short-term uncertainty in the sector without creating long-term uncertainty.

Exemplary cases of erratic state behaviour are retroactive decision, ad hoc policy-making, frequent policy reversals and particularistic rules. While these actions look similar to the established idea of policy-induced uncertainty being a dominant characteristic of Turkey's political economy we noted that the difference between the two concepts is in the prevalence of institutionalisation. Whereas policy-induced uncertainty is emphasising the de-institutionalising nature of state action, erratic state behaviour takes place within a sound regulatory framework. This kind of state action is difficult to understand from a VOC perspective because VOC assumes institutions that create certainty and predictability. Thus, to analyse and incorporate erratic state behaviour within the VOC framework would probably require a modification of the conceptualisation of institutions in the approach.

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